

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE



53RD DISTRICT AGRICULTURAL ASSOCIATION
DESERT EMPIRE FAIR
RIDGECREST, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

AUDIT REPORT #08-051
FOR THE YEARS ENDED
DECEMBER 31, 2007 AND 2006

53RD DISTRICT AGRICULTURAL ASSOCIATION
DESERT EMPIRE FAIR
RIDGECREST, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

FOR THE YEARS ENDED
DECEMBER 31, 2007 AND 2006

AUDIT STAFF

Ron Shackelford, CPA
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Audit Chief
Assistant Audit Chief
Auditor

AUDIT REPORT NUMBER

#08-051

53RD DISTRICT AGRICULTURAL ASSOCIATION
DESERT EMPIRE FAIR
RIDGECREST, CALIFORNIA

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CALIFORNIA DEPARTMENT OF
FOOD & AGRICULTURE

A. G. Kawamura, Secretary

Mr. Fred Farris, President
Board of Directors
53rd DAA, Desert Empire Fair
520 South Richmond Road
Ridgecrest, California 93555

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statements of financial condition of the 53rd District Agricultural Association (DAA), Desert Empire Fair, Ridgecrest California, as of December 31, 2007 and 2006, and the related statements of operations and changes in accountability, and cash flows-regulatory basis for the years then ended. These financial statements are the responsibility of the 53rd DAA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We have conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the 53rd DAA, Desert Empire Fair, as of December 31, 2007 and 2006, and the results of its operations and changes in accountability, and cash flows-regulatory basis for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The 53rd DAA, Desert Empire Fair, has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.



Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Management Report #08-051 on the 53rd DAA's compliance with State laws and regulations and system of internal accounting control, is issued solely for the purpose of additional analysis and should be addressed by the 53rd DAA as appropriate. This additional report, however, is not a required part of the basic financial statements.

A handwritten signature in dark ink, appearing to read "Ron Shackelford", is positioned above the printed name.

Ron Shackelford, CPA
Chief, Audit Office

January 16, 2009

**53RD DISTRICT AGRICULTURAL ASSOCIATION
DESERT EMPIRE FAIR
RIDGECREST, CALIFORNIA**

STATEMENTS OF FINANCIAL CONDITION
December 31, 2007 and 2006

	Account Number	2007	2006
ASSETS			
Cash in Bank	111 - 117	\$ 30,107	\$ 47,190
Accounts Receivable, Net	131	11,101	14,867
Deferred Charges	143	3,251	-
Land	191	71,375	71,375
Buildings and Improvements, Net	192	1,399,006	1,453,465
Equipment, Net	193	9,642	19,283
TOTAL ASSETS		<u>\$ 1,524,482</u>	<u>1,606,181</u>
LIABILITIES AND NET RESOURCES			
Liabilities			
Accounts Payable	212	11,374	30,469
Current Portion of LT Debt	212.5	11,669	20,486
Taxes Payable	221 - 226	523	1,588
Deferred Income	228	13,311	7,008
Guaranteed Deposits	241	2,631	3,905
Other Liabilities	243	3,024	2,574
Compensated Absences Liability	245	47,287	39,369
Long Term Debt	250	207,827	219,500
Total Liabilities		<u>297,646</u>	<u>324,900</u>
Net Resources			
Net Resources - Operations	291	(33,690)	(22,857)
Net Resources - Capital Assets, Less Related Debt	291.1	1,260,526	1,304,138
Total Net Resources Available		<u>1,226,836</u>	<u>1,281,281</u>
TOTAL LIABILITIES AND NET RESOURCES		<u>\$ 1,524,482</u>	<u>\$ 1,606,181</u>

**53RD DISTRICT AGRICULTURAL ASSOCIATION
DESERT EMPIRE FAIR
RIDGECREST, CALIFORNIA**

STATEMENTS OF OPERATIONS/CHANGES IN ACCOUNTABILITY

December 31, 2007 and 2006

	<u>Account Number</u>	<u>2007</u>	<u>2006</u>
REVENUE			
State Apportionments	312	\$ 150,000	\$ 150,000
Capital Project Funds	319	44,623	30,489
Other	340	14,511	9,511
Admissions	410	39,762	28,452
Commercial Space	415	13,635	11,270
Carnival	421	11,270	9,532
Food Concessions	422	12,078	9,864
Exhibits	430	1,640	1,039
Attractions - Fairtime	460	8,172	8,308
Motorized Racing	461	28,805	31,668
Miscellaneous Fair	470	9,279	13,151
Miscellaneous Non-Fair	470.5	74,126	61,112
Non-Fair Revenue	480	139,267	123,281
Prior Year Adjustment	490	393	2,699
Other Revenue	495	11,649	22,703
Total Revenue		<u>559,210</u>	<u>513,079</u>
EXPENSES			
Administration	500	227,906	210,323
Maintenance and Operations	520	154,542	143,131
Publicity	540	12,207	10,147
Attendance	560	8,776	8,681
Miscellaneous Fair	570	3,506	3,333
Miscellaneous Non-Fair	570.5	30,220	30,597
Premiums	580	2,420	2,488
Exhibits	630	3,720	3,631
Attractions - Fairtime	660	26,557	26,430
Motorized Racing	661	29,831	19,583
Interim Entertainment Expense	668	10,125	10,188
Non-Capitalized Expenses	723	885	-
Prior Year Adjustments	800	(283)	(867)
Cash Over/Short from Ticket Sales	850	11	42
Depreciation Expense	900	85,571	85,472
Reimbursable Expenditures	930	17,661	9,511
Total Expenses		<u>613,655</u>	<u>562,688</u>
RESOURCES			
Net Change - Income / (Loss)		(54,445)	(49,610)
Resources Available, January 1		1,281,281	1,330,891
Resources Available, December 31		<u>\$ 1,226,836</u>	<u>\$ 1,281,281</u>

**53RD DISTRICT AGRICULTURAL ASSOCIATION
DESERT EMPIRE FAIR
RIDGECREST, CALIFORNIA**

**STATEMENTS OF CASH FLOWS - REGULATORY BASIS
December 31, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Excess of Revenue Over Expenses	\$ (54,445)	\$ (49,610)
Adjustment to Reconcile Excess of Revenue Over Expenses to Net Cash Provided by Operating Activities:		
(Increase) Decrease in Accounts Receivable	3,766	(4,589)
(Increase) Decrease in Deferred Charges	(3,251)	754
Increase (Decrease) in Current Portion of Long-term Debt	(8,817)	482
Increase (Decrease) in Deferred Income	6,302	7,008
Increase (Decrease) in Accounts Payable	(19,096)	16,116
Increase (Decrease) in Compensated Absence Liability	7,918	2,674
Increase (Decrease) in Taxes Payable	(1,065)	(1,780)
Increase (Decrease) in Other Liabilities	450	(76)
Increase (Decrease) in Guarantee Deposits	(1,274)	(199)
Total Adjustments	<u>(15,067)</u>	<u>20,392</u>
Net Cash Provided (Used) by Operating Activities	<u>(69,512)</u>	<u>(29,218)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
(Increase) Decrease in Buildings & Improvements	54,460	76,141
(Increase) Decrease in Equipmen	<u>9,642</u>	<u>11,197</u>
Net Cash Provided (Used) by Investing Activities	<u>64,102</u>	<u>87,338</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase (Decrease) in Long-Term Liability	<u>(11,673)</u>	<u>(29,487)</u>
Net Cash Provided (Used) by Financing Activities	<u>(11,673)</u>	<u>(29,487)</u>
NET INCREASE (DECREASE) IN CASH	(17,083)	28,633
Cash at Beginning of Year	47,190	18,557
CASH AT END OF YEAR	<u><u>\$ 30,107</u></u>	<u><u>\$ 47,190</u></u>

**53RD DISTRICT AGRICULTURAL ASSOCIATION
DESERT EMPIRE FAIR
RIDGECREST, CALIFORNIA**

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007 and 2006

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - The 53rd District Agricultural Association (DAA) was formed in May 1922, for the purpose of sponsoring, managing, and conducting the Desert Empire Fair each year in Ridgecrest, California. The State of California, Department of Food and Agriculture, through the Division of Fairs and Expositions provides oversight responsibilities to the DAA. The DAA is subject to the policies, procedures, and regulations set forth in the California Government Code, California Business and Professions Code, Public Contracts Code, Food and Agricultural Code, State Administrative Manual, and the Accounting Procedures Manual established by the Division of Fairs and Expositions.

The State of California allocates funds annually to the DAA to support operations and acquire fixed assets. However, the level of State funding varies from year to year based on budgetary constraints. The Division of Fairs and Expositions determines the amount of the allocations.

Basis of Accounting - The accounting policies applied to and procedures used by the DAA conform to accounting principles applicable to District Agricultural Associations as prescribed by the State Administrative Manual and the Accounting Procedures Manual. The DAA's activities are accounted for as an enterprise fund. The Governmental Accounting Standards Board defines an enterprise fund as a fund related to an organization financed and operated in a manner similar to a private business enterprise where the intent is to recover the costs of providing goods or services to the general public primarily through user charges.

The DAA's financial activities are accounted for using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP) as promulgated by the Governmental Accounting Standards Board. Thus, revenues are reported in the year earned rather than collected, and expenses are reported in the year incurred rather than paid.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the

reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes – The DAA is a state agency and therefore, is exempt from paying taxes on its income.

Cash and Cash Equivalents – The DAA's cash and cash equivalents are separately held in various local banks. The Financial Accounting Standards Board defines cash equivalents as short-term, highly liquid investments that are both: (1) readily convertible to known amounts of cash; and (2) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. The cost of all cash equivalents of the DAA approximates market value.

The California State Treasury makes available the Local Agency Investment Fund (LAIF) through which local governments may pool investments. Each governmental entity may invest up to \$40,000,000 in the fund. Investments in the LAIF are highly liquid, as deposits can be converted to cash within 24 hours without loss of interest.

In accordance with the Accounting Procedures Manual, the DAA is authorized to deposit funds in certificates of deposit and interest bearing accounts. However, Government Code Sections 16521 and 16611 require the bank or savings and loan association to deposit, with the State Treasurer, securities valued at 110 percent of the uninsured portion of the funds deposited with the financial institution. Government Code Sections 16520 and 16610 provide that security need not be required for that portion of any deposit insured under any law of the United States, such as FDIC and FSLIC.

Property and Equipment - Construction-in-progress, land, buildings and improvements, and equipment, if any, are acquired with operating funds and funds allocated by the State. Any acquired assets, if greater than \$5,000 and a useful life of one or more years, are capitalized and depreciated. Buildings and improvements are depreciated over a period of 30 years, and purchases of equipment are depreciated over five years. Amounts spent on repair and maintenance costs are expensed as incurred by the Fair. Furthermore, donated building improvements, and equipment are recorded at their fair market value at the date of the gift. This recorded basis is depreciated over the useful lives identified above. Amounts spent on projects that have not been placed in service are recorded in Account #190, Construction-in-Progress and no depreciation is recorded on Construction-in-Progress until the project is completed and the asset is placed in service.

Sales Taxes – The State of California imposes a sales tax of 7.25% on all of the DAA's sales of merchandise. The DAA collects that sales tax from customers and remits the entire amount to the state Board of Equalization.

The DAA's accounting policy is to exclude the tax collected and remitted to the State from revenues and cost of sales.

Compensated Absences - Pursuant to Statement No. 16 of the Governmental Accounting Standards Board, State and local governmental entities are required to report the liability for compensated absences. Compensated absences are absences for which permanent employees will be paid, such as vacation, personal leave, and compensatory time off. The compensated absences liability is calculated based on the pay rates in effect at the balance sheet date.

NOTE 2 CASH AND CASH EQUIVALENTS

The following list of cash and cash equivalents were held by the DAA as of December 31:

	<u>2007</u>	<u>2006</u>
Petty Cash & Change Fund	\$ 200	\$ 200
Cash in Bank – Operating	14,955	34,683
Cash in Bank – B of A	2,116	117
Cash in Bank – LAIF	<u>12,836</u>	<u>12,190</u>
 Total Cash and Cash Equivalents	 <u><u>\$ 30,107</u></u>	 <u><u>\$ 47,190</u></u>

NOTE 3 ACCOUNTS RECEIVABLE

The DAA is required to record an allowance for doubtful accounts based on estimates of collectibility.

	<u>2007</u>	<u>2006</u>
Accounts Receivable	\$ 13,724	\$ 15,934
Allowance for Doubtful Accounts	<u>(2,623)</u>	<u>(1,067)</u>
 Accounts Receivable - Net	 <u><u>\$ 11,101</u></u>	 <u><u>\$ 14,687</u></u>

NOTE 4 **PROPERTY AND EQUIPMENT**

Buildings and improvements, and equipment at December 31, 2007 and 2006 consist of the following:

	<u>2007</u>	<u>2006</u>
Building & Improvements	\$ 2,576,218	\$ 2,554,748
Less: Accumulated Depreciation	<u>(1,177,212)</u>	<u>(1,101,283)</u>
Building & Improvements - Net	<u>\$ 1,399,006</u>	<u>\$ 1,453,465</u>
 Equipment	 \$ 93,904	 \$ 93,904
Less: Accumulated Depreciation	<u>(84,262)</u>	<u>(74,621)</u>
Equipment - Net	<u>\$ 9,642</u>	<u>\$ 19,283</u>

NOTE 5 **LONG-TERM DEBT**

The DAA has entered into a long-term loan agreement with California Construction Authority (CCA) to finance the Photovoltaic power-generating project on the fairgrounds. The terms of the agreement are as follows:

CCA Photovoltaic Loan:

Loan Amount	\$ 300,000
First Payment Date	May, 2004
Payment Amount	\$ 1,667
Duration of Loan	180 Months
Interest Rate	Zero, Principle Only
Total Outstanding at 12/31/07	\$ 219,496
 Current Portion at 12/31/07	 \$ 11,669
Long-Term Portion at 12/31/07	\$ 207,827

NOTE 6 **RETIREMENT PLAN**

Permanent employees of the DAA are members of the Public Employees' Retirement System (PERS), which is a defined benefit contributory retirement plan. The retirement contributions made by the DAA and its employees are actuarially determined. Contributions plus earnings of the Retirement System will provide the necessary funds to pay retirement costs when accrued. The DAA's share of retirement contributions is included in the cost of administration. For further information, please refer to the annual single audit of the State of California.

Retirement benefits fully vest after five years of credited service for Tier I employees. Retirement benefits fully vest after ten years of credited service for Tier II employees. Upon separation from State employment, members' accumulated contributions are refundable with interest credited through the

date of separation. The DAA, however, does not accrue the liability associated with vested benefits.

The Alternate Retirement Program (ARP) is a retirement savings program that certain employees hired on or after August 11, 2004 are automatically enrolled in for their first two years of employment with the State of California. ARP is administered by the Savings Plus Program with the Department of Personnel Administration and invests funds in a fixed-income fund. ARP provides two years of retirement savings (five percent of paycheck amount each month) in lieu of two years of service credit. At the end of the two-year period, the deductions are placed in CalPERS and the retirement service credit begins.

Temporary, 119-day, employees of the DAA participate in the Part-Time, Seasonal, Temporary (PST) Retirement Plan. The PST Retirement Plan is a mandatory deferred compensation plan under which 7.5% of the employee's gross salary is deducted before taxes are calculated. These pre-tax dollars are placed in a guaranteed savings program. The employee has the option of leaving these funds on deposit upon separation, or requesting a refund.

NOTE 7

RECLASSIFICATION

Certain prior-year balances have been reclassified to conform to current year presentation. This reclassification did not have an effect on net income.

**53RD DISTRICT AGRICULTURAL ASSOCIATION
DESERT EMPIRE FAIR
RIDGECREST, CALIFORNIA**

REPORT DISTRIBUTION

<u>Number</u>	<u>Recipient</u>
1	President, 53rd DAA Board of Directors
1	Chief Executive Officer, 53rd DAA
1	Director, Division of Fairs and Expositions
1	Chief Counsel, CDFA Legal Office
1	Chief, CDFA Audit Office

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE



53RD DISTRICT AGRICULTURAL ASSOCIATION
DESERT EMPIRE FAIR
RIDGECREST, CALIFORNIA

MANAGEMENT REPORT #08-051

YEAR ENDED DECEMBER 31, 2007

53RD DISTRICT AGRICULTURAL ASSOCIATION
DESERT EMPIRE FAIR
RIDGECREST, CALIFORNIA

MANAGEMENT REPORT
YEAR ENDED DECEMBER 31, 2007

AUDIT STAFF

Ron Shackelford, CPA
Shakil Anwar, CPA
Jason Jones

Audit Chief
Assistant Audit Chief
Auditor

MANAGEMENT REPORT NUMBER
#08-051

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CALIFORNIA DEPARTMENT OF
FOOD & AGRICULTURE

A. G. Kawamura, Secretary

Mr. Fred Farris, President
Board of Directors
53rd DAA, Desert Empire Fair
520 South Richmond Road
Ridgecrest, California 93555

In planning and performing our audit of the financial statements of the 53rd District Agricultural Association (DAA), Desert Empire Fair, Ridgecrest, California, for the year ended December 31, 2007, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure. However, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

In addition, this Management Report includes: (1) matters other than those related to the internal control structure which came to our attention that could, in our judgment, either individually or in the aggregate, have a significant effect on the entity's financial reporting process (e.g., accounting errors, significant audit adjustments, etc.), and (2) areas of non-compliance by the Desert Empire Fair with respect to State laws and regulations, with the Accounting Procedures Manual, and with established policies and procedures.

In accordance with Government Code Section 13402, Fair managers and Board of Directors are responsible for the establishment and maintenance of a system or systems of internal accounting and administrative control within their agencies. This responsibility includes documenting the system, communicating system requirements to employees, and assuring that the system is functioning as prescribed and is modified, as appropriate, for changes in conditions.

Due to the small size of the 53rd DAA's office staff, it is not practical to have the degree of segregation of duties possible in a larger organization. Therefore, the Board of Directors must consider this when determining the extent that the Board becomes involved in operations to adequately safeguard the 53rd DAA's assets. The system of internal control should provide the Board of Directors and management reasonable, but not absolute,



assurance that: (1) only authorized transactions are executed; (2) transactions are properly recorded in the accounting records; and (3) material errors and irregularities that may occur, will be detected by the 53rd DAA in a timely manner during the normal course of operations. In this regard, it is particularly important that the Board review and approve significant transactions and critically review monthly financial information. The 53rd DAA's minimum staffing was one factor considered in determining the nature, timing, and extent of the tests to be performed on the 53rd DAA's accounting procedures, records, and substantiating documents.

During our audit of the internal control structure of the 53rd DAA and compliance with state laws and regulations, we identified three areas with reportable conditions that are considered weaknesses in the Fair's operations: delegated and opportunity purchase, carnival revenue, and sponsorship revenue. We have provided seven recommendations to improve the operations of the Fair. The Fair must respond in writing on how these recommendations will be implemented.

We also identified additional areas containing non-reportable conditions. These conditions and accompanying recommendations are not considered significant weaknesses. We have included these items solely for the benefit of the 53rd DAA's management. We suggest the Fair implement the recommendations as soon as practicable. The Fair, however, is not required to provide written responses to the recommendations for non-reportable conditions.

REPORTABLE CONDITIONS

DELEGATED AND OPPORTUNITY PURCHASES

The Fair did not have Delegated Purchasing Authority from the Department of General Services (DGS) in 2007. According to Purchasing Authority Manual (PAM), Section 1.1.7 and Public Contract Code (PCC), Section 10308 & 10309, without a delegation of authority from DGS the Fair is not authorized to purchase goods over \$100 without obtaining prior approval. However, in order to obtain this authority, the Fair is required to submit a "Request for Delegated Purchasing Authority," to DGS on a yearly basis. Failure to adhere to DGS requirements could lead to the denial of any future purchasing authority requested by the Fair.

The Fair made opportunity purchases during 2007. However, the Fair failed to document whether opportunity purchases meet or beat the state price and, by failing to list the price, did not adequately complete the STD 65, Purchasing Authority Purchase Order. Opportunity purchases allow DAAs to purchase commodities from any source provided it meets or beats prices available through the state-purchasing program. Therefore, to claim an opportunity purchase, the Fair must demonstrate and substantiate price information or exemption justification when necessary. Merely stating that the local price was equivalent to or less than that available through the state purchasing program does not sufficiently meet the documenting criteria.

Recommendations

1. *The Fair should work with DGS to obtain Delegated Purchasing Authority. Furthermore, the Fair should submit a yearly "Request for Delegated Purchasing Authority" in a timely manner to ensure the authority does not expire. Once a purchasing authority expires, the Fair is prohibited from making delegated purchases that exceed \$100.*
2. *The Fair should follow proper procedures when making opportunity purchases and adequately document local and state pricing for all items purchased. This includes actual price quotes and listing prices to complete the form.*

CARNIVAL REVENUE

A review of the Fair's carnival revenue identified the following deficiencies in carnival reconciliations and operation controls:

- a. The Fair did not comply with the carnival contract and include the guaranteed flat \$1,000 fee for games/food operated during the Desert Empire Fair (DEF) in the carnival settlement. Our office also noted this occurred during the 2008 Spring Festival.
- b. The summary of ticket sales for the Desert Empire Fair and the Spring Festival from the carnival operator was not adequate. There was no detail indicating the number or type of tickets sold. The carnival operator provided only a single hand written page

Management Report #08-051

Ridgecrest, California

indicating the total dollar value of tickets sold during the indicated day. Since tickets can sell for various prices, these details are vital in determining the validity of the reported ticket sales.

- c. The Fair relies solely on the single page summary, noted above, to calculate revenue percentages. It does not appear a review or confirmation of information provided is performed. Additionally, it does not appear a ticket inventory was performed. According to Exhibit C Paragraph D, Sub-paragraph 4 of the carnival contract, the Fair is allowed to “audit the ticket money at anytime” and requires all supporting documentation for daily ticket sales reports be provided.

Recommendations

3. *The Fair should comply with the carnival contract and ensure they include all items of revenue listed in the carnival contract in the carnival settlement.*
4. *The Fair should require the carnival operator provide detailed sales information on a daily basis. This information should include the total sales, the type of tickets sold, and the number of each ticket sold.*
5. *The Fair should verify information provided by the carnival operator concerning fair-time carnival ticket sales. An inventory is necessary to confirm reported sales for both the Desert Empire Fair and the Spring Festival carnivals. This ensures the Fair includes all the revenue in the carnival settlement with the carnival operator*

SPONSORSHIP POLICIES AND PROCEDURES

In examining the policies and procedures for sponsorship agreements, our office noted the following deficiencies:

- a. The Fair does not have any established sponsorship procedures. The Division of Fairs and Expositions (F&E) Contract Manual, Chapter 6 § 6.40, requires the DAA to follow all of the following steps to secure sponsorship agreements: a) establish the procedure, b) Board approves the procedure and maintains a copy in their contract office, and c) the DAA follows the approved procedures. It should be noted that although the DAA’s sponsorship agreements generally are not subject to F&E approval, California Food and Agriculture code 4051.1 (b) does require F&E pre-approval on sponsorship agreements that exceed \$100,000 in value, have a term of over two (2) years, or contemplate building a permanent structure on the property.
- b. The Fair does not maintain or have sponsorship agreements that state the financial considerations, details of in-kind trade, special arrangements, agreement length, and which event the sponsorship is in effect. In addition, the Fair had six (6) instances of sponsorships not being located, two (2) instances of sponsorships not being signed, and one (1) instance of a sponsor giving the Fair a sponsorship discount, but no agreement being located or listed in the control log.

Recommendations

6. *The Fair's Board of Directors should comply with F&E Contract Manual, Chapter 6 § 6.40 and establish and approve procedures for sponsorship arrangements.*
7. *The Fair should maintain a signed detailed sponsorship agreement for all sponsorships. A written sponsorship agreement that contains sufficient detail would prevent any misunderstandings from occurring between the two parties about performance.*

NON-REPORTABLE CONDITIONS

ACCOUNTS RECEIVABLE

The Fair has not established an allowance for doubtful accounts for several outstanding receivables older than one year. The Accounting Procedures Manual (APM), Section 2.41 states an allowance for doubtful accounts should be recognized in the accounting records when an account is deemed uncollectible. This process presents the Fair's assets more accurately. Our office identified two (2) accounts totaling \$1,556 from 2006 that have not had an allowance for doubtful accounts established and whose collection has become doubtful.

Recommendation

The Fair should ensure it continues to monitor all outstanding accounts receivable to evaluate their collectability. The Fair should exhaust all means of collection and then record any receivable that is considered uncollectible in Account #131.1, Allowance for Doubtful Accounts. This ensures assets (accounts receivable) are not overstated in the Statement of Operations (STOP).

BARTERED SERVICES

The Fair had rental agreements with individuals who provided Recreational Vehicle (RV) managerial services in exchange for rent-free lodging in the fairground's RV Park. The Fair did not prepare or issue an Internal Revenue Service (IRS) Form 1099-B, Proceeds from Broker and Barter Exchange Transactions, to report the fair market value of the rent-free lodging as miscellaneous income. According to IRS Pub 525, this form "shows the value of cash, property, services, credits, or scrip you (the recipient) received from exchanges during 2007" and must be prepared any time services are exchanged through a barter exchange.

Recommendation

The Fair should ensure it reports the value of providing an individual rent-free housing to the IRS on a Form 1099-B, Proceeds from Broker and Barter Exchange Transactions. Timely IRS reporting will preclude a possible penalty for late Form 1099-B filing.

COURTESY AND CREDENTIAL PASSES

A review of the courtesy & credential passes controls and procedures identified the following weaknesses:

- a. The Fair did not keep records of courtesy and credential passes issued. Therefore, our office was unable to determine the appropriateness of any credential or courtesy passes issued. California Department of Food and Agriculture (F&A) Code Section 3028 says, "Each fair shall maintain complete records of the number of credential and courtesy pass admissions which are issued for each fair period."

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Ridgecrest, California

- b. It appears the Fair did not have documentation indicating the amount of redeemed courtesy and credential passes. Therefore, our office could not confirm the 270 courtesy pass admissions or 4% reported on Schedule 4 of the STOP. If, according to fair personnel, all 300 ordered courtesy passes were issued then the courtesy pass percentage reported on the STOP could increase from 4.0% to 4.4%. According to California Department of Food and Agricultural Code Section 3026, "courtesy pass admissions to any state, county, district, or citrus fruit fair shall not exceed 4 percent of the gross paid admission to the fair in the preceding calendar year."

Recommendations

The Fair should track credential and courtesy passes and strengthen internal controls over these passes by justifying and supporting the business purpose for issuing these passes. This is to ensure individuals or vendors are issued the appropriate pass.

The Fair should track and document all redeemed courtesy and credential admissions to ensure accurate reporting on Schedule 4 of the STOP.

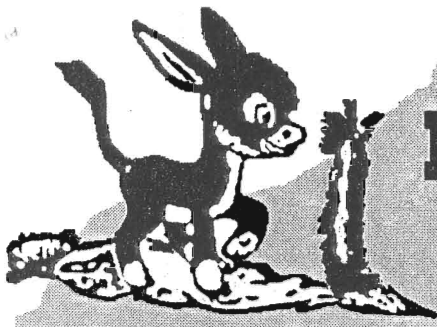
CASH RECEIPTS

The Fair does not consistently deposit cash receipts in a timely manner. SAM 8032.1 states, "cash will accumulate until they amount to \$1,000 in cash or \$10,000 in cash, checks, money orders and warrants." Out of the three months tested, the Fair had instances of cash and check being deposited two (2), four (4), and eleven (11) business days after exceeding deposit thresholds.

Recommendation

The Fair should ensure it deposits cash receipts within the timeframes specified in SAM. The timely deposit of cash and check receipts helps minimize the risk of loss or other misuses of the cash or cash equivalents collected.

DISTRICT AGRICULTURAL ASSOCIATION'S RESPONSE



53RD DISTRICT AGRICULTURAL ASSOCIATION
STATE OF CALIFORNIA

DESERT EMPIRE FAIR

A CommUNITY Project

520 South Richmond Road • Ridgecrest, California 93555

Telephone (760) 375-8000 • FAX (760) 375-8134

Fred Farris
President

M.J. 'Mike' Thomas
Chief Executive Officer
defceo@ridgecrest.ca.us

March 17, 2009

State of California
Department of Food and Agriculture
1220 N Street, Room 344
Sacramento, California 95814
Attn. Ron Shackelford
Chief, Audit Office

Dear Ron

Please accept this letter as our official response to the recent audit.

Delegated and Opportunity Purchases

1. The Fair will work with DGS to obtain Delegated Purchasing Authority. This will be our top priority.
2. The Fair will follow proper procedures in opportunity purchasing and will document local and state pricing.

Carnival Revenue

3. The Fair will comply with the carnival contract and will ensure that all revenue items are complied with.
4. The Fair will require the carnival operator provide a daily detailed sales sheet to include total sales, type sold and number of each ticket.

5. The Fair will audit the ticket sales and require all supporting documentation be provided.

Sponsorship Policies and Procedures

6. The Fair's Policy and Financial Committee will establish and ask the Board to approve a new procedure for sponsorships.
7. The Fair will produce a sponsorship agreement that details all of the parameters regarding the conditions of the agreement.

Thank you in advance.
Sincerely,

Michael J Thomas



Chief Executive Officer

Fred Farris



President

CDFA EVALUATION OF RESPONSE

A draft copy of this report was forwarded to the management of the 53rd DAA, Desert Empire Fair, for its review and response. We have reviewed the response and it addresses the findings contained in this report.

DISPOSITION OF AUDIT RESULTS

The findings in this management report are based on fieldwork that my staff performed between January 5, 2009 and January 16, 2009. My staff met with management on January 15, 2009 to discuss the findings and recommendations, as well as other issues.

This report is intended for the information of the Board of Directors, management, and the Division of Fairs and Expositions. However, this report is a matter of public record and its distribution is not limited.



Ron Shackelford, CPA
Chief, Audit Office

January 16, 2009

REPORT DISTRIBUTION

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1	Director, Division of Fairs and Expositions
1	Chief Counsel, CDFA Legal Office
1	Chief, CDFA Audit Office